

*Cynthia - file
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THE STUDY OF
TOTAL COMPENSATION IN THE FEDERAL, STATE AND PRIVATE SECTORS
FOR
THE COMMITTEE ON POST OFFICE AND CIVIL SERVICE
U.S. HOUSE OF REPRESENTATIVES

SUMMARY OF FINDINGS

THE HAY GROUP

December 4, 1984

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STUDY SUMMARY

The Hay Group Study of Total Compensation in the Federal, State and Private Sectors is a comprehensive analysis of the comparative level of total compensation (salary and benefits) of Federal employees. The Committee requested this study to provide it with the essential perspective for developing a supplemental retirement system for Federal employees covered by social security.

Retirement Findings

The Study shows that ~~the Civil Service Retirement System (CSRS)~~ is ~~more valuable than the retirement systems of private sector~~ employees. However, the difference, 6.4% of pay, is much lower than reported in many other studies. Studies which show a larger difference tend to be flawed for two reasons. First, they often do not consider that CSRS costs more because the rate of investment return of the CSRS Fund is lower. This low investment rate is a result of limitations placed on the investments of the Fund by law; its effect should be measured in any fair consideration of the relative benefits payable to Federal employees. Second, other studies often have not considered all sources of employee retirement benefits in the private sector. In addition to the traditional retirement system, all private sector employees are entitled to social security and most have deferred compensation plans. The deferred compensation plans have become increasingly important in recent years because of their special tax treatment in section 401(k) of the Internal Revenue Service law. The retirement system analysis in the Hay study avoids both of the above analytic flaws by considering all sources of retirement income on a common set of actuarial assumptions.

Total Compensation Findings

The Federal retirement system advantage is more than offset by the fact that most other elements of compensation are more valuable in the private sector than for Federal employees. The graph shows that the Federal employee substantially lags the private sector in disability benefits, health benefits, executive perquisites and salary. The result is that total compensation (salary and benefits) of Federal employees, as a percent of salary, is 7.2% behind the private sector.

Consideration of the other fringe benefits reduces the advantage of Federal benefits over the private sector to 2.8% of pay. This occurs for two reasons. First, private sector employers have disability and life insurance programs which offer protection that in the Federal government largely provides through the Civil Service Retirement System. Second, other Federal benefit programs are often less valuable than those found in the private sector. For instance, health benefits are worth 2.2% less, as a percentage of pay, for the Federal employee than for the average private sector employee.

Comparison of salary shows that General Schedule pay would have to be increased by 10.3% to match private sector pay levels for equivalent positions. The private sector advantage is observed at all pay levels, and a special analysis of Senior Executive Service (SES) positions shows that the equivalent private sector executive is earning 58.4% more than the SES incumbent.

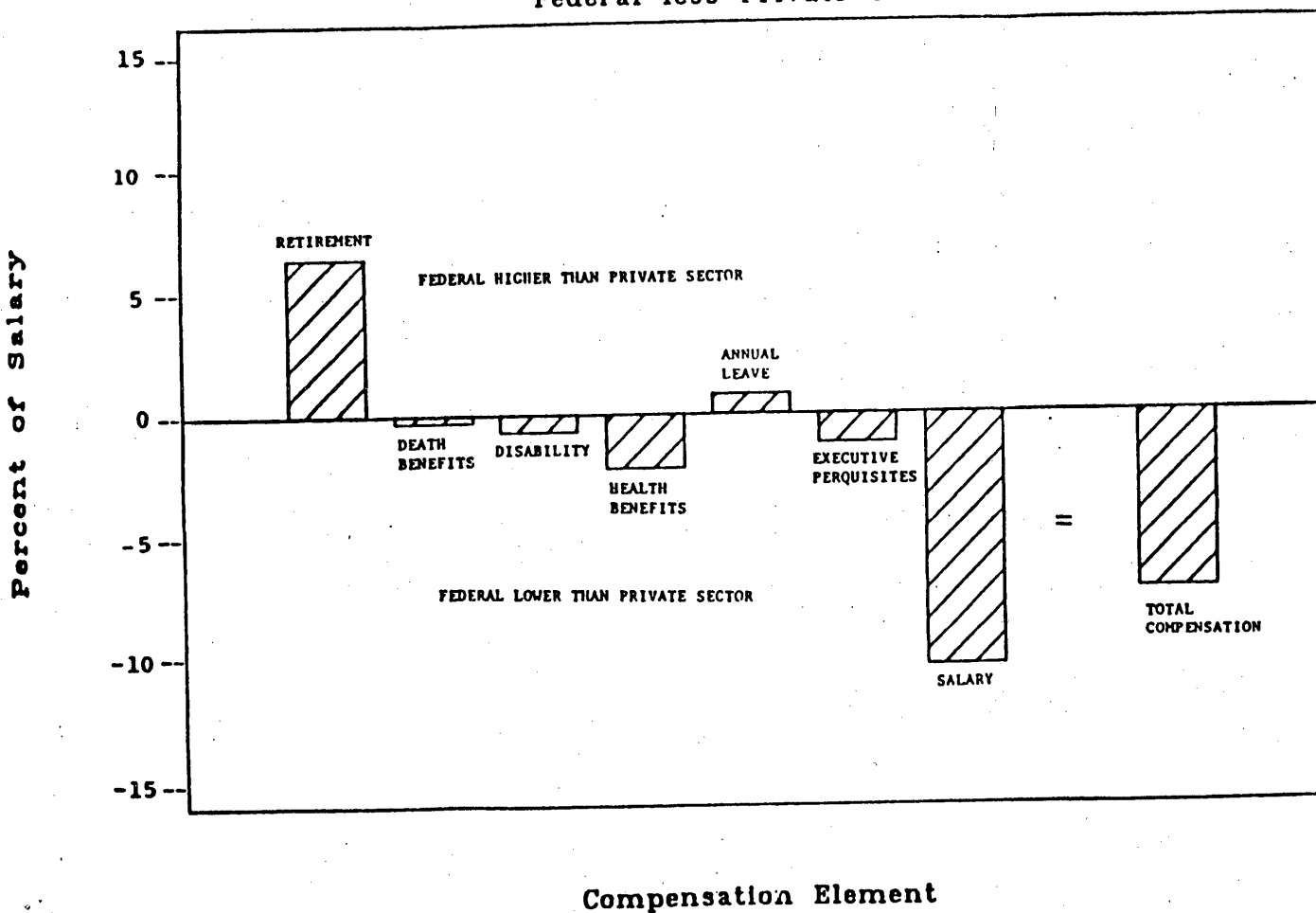
The results can be summarized as follows:

Federal Compensation Compared
to the Private Sector
(as a percent of salary)

o Retirement		+6.4%
o Retirement related benefits:		
- Death benefits	- .3%	
- Disability	- .7%	
	<u>-1.0%</u>	
		+5.4%
o Other fringe benefits:		
- Health benefits	-2.2%	
- Executive perquisites	-1.2%	
- Annual leave	+ .8%	
	<u>-2.6%</u>	
		+2.8%
o Salary	-10.3%	
		-7.2%*

*Because benefits vary by salary, this percentage is not simply the sum of salary (-10.3%) and benefits (+2.8%).

Comparison of Total Compensation Federal less Private Sector



The report details the careful and consistent analytic approach applied by Hay. The selection of the data bases and the methods to be used parallel Hay's total compensation analyses for major employers in the United States. The approach is founded on the thesis that meaningful findings must be based on the comparison of "like things." The Federal government's use of a single national compensation system for the bulk of its civilian employees, the size of its workforce and the variety of its activities make it similar to a large and diverse corporation. Thus, it was not considered appropriate to include small independent corporations which have neither national compensation systems nor a similar diversity of employment. *But OPM wants to include the major fop stores, etc.*

All significant elements of compensation were reviewed in order to determine the total compensation package available to private sector and State employees as well as to Federal government employees. The salary analysis includes the employees' basic salary plus any other cash items such as bonuses and incentives. The benefit analysis includes all insurance programs, retirement plans, deferred compensation plans, statutory plans, and executive perquisites. Thus, in building a complete valid comparison, the study considers all elements of compensation.

Future Analysis

Since compensation practices and levels change over time, it is important to bring data on all compensation practices to a single point in time. For this study, the date selected was March 1, 1984. Since the Committee will be developing a new retirement system in 1985, Hay will update the analysis in 1985 to a date selected by the Committee. Among other considerations, the

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supplemental analysis will incorporate the upcoming Federal pay raise as well as pay growth in private sector salaries after March 1, 1984. If the Federal employees receive a 3.5% pay increase, Hay anticipates that the difference between Federal and private sector total compensation will increase to 9% or more.

The Hay Group is one of the world's largest consulting firms specializing in human resources. Hay has offices in 27 countries and in 20 U.S. cities -- including Washington, D.C. where it works extensively on projects for the Federal government. Hay is well-known for its compensation and benefits studies. Each year it sponsors a survey of cash compensation in more than 1,200 U.S. organizations (The Hay Compensation Comparison) and a 850 organization study of U.S. benefits practices (The Hay/Huggins Benefits Comparison).